

STONE COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2011

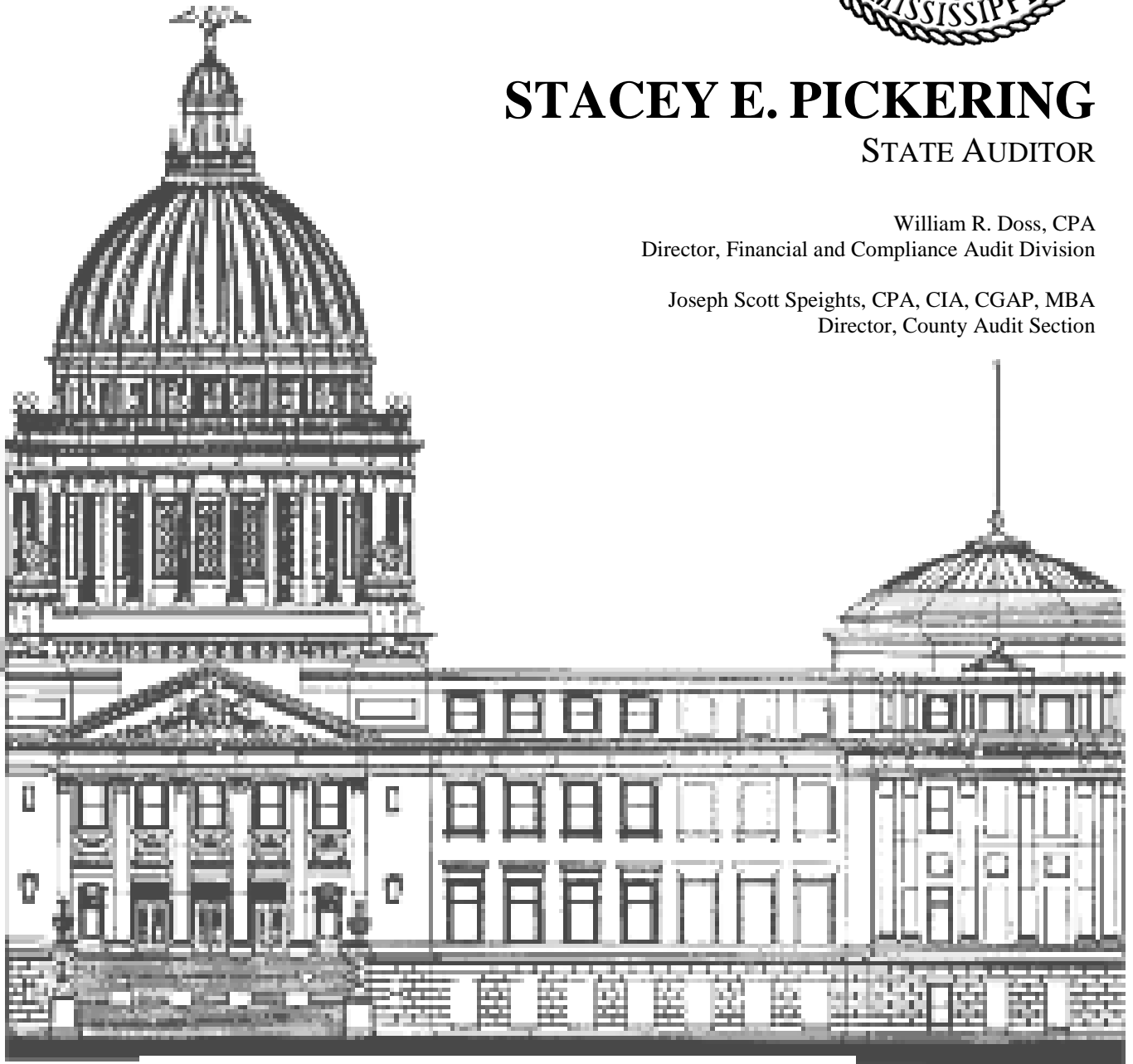


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

June 17, 2013

Members of the Board of Supervisors
Stone County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2011 financial and compliance audit report for Stone County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the officials and employees of Stone County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Stone County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
State Auditor

STONE COUNTY

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STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, (the County), as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fifth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component unit. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

As discussed in Note 14 to the financial statements, the county has not recorded a liability for other postemployment benefits in the governmental activities, the business-type activities and the Correctional Facility Fund and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets and change the expenses of the governmental activities, business-type activities and the Correctional Facility Fund. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities, the business-type activities and the Correctional Facility Fund is not reasonably determinable.

Management did not properly maintain subsidiary records documenting fines receivable and the aging of these fines receivable. Adequate subsidiary records were not maintained and preserved for the Circuit Court and Justice Court fines receivable aging schedules at September 30, 2011. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$187,802, as of September 30, 2011.

In our opinion, because of the omission of the discretely presented component unit, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Stone County, Mississippi, as of September 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of the matter discussed in the fourth paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the Correctional Facility Fund of Stone County, Mississippi, as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the fines receivable reported in the General Fund, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Stone County, Mississippi, as of September 30, 2011, and the changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Countywide Bridge and Culvert Fund and the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As discussed in Note 2, the county adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of October 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Stone County, Mississippi, has not presented Management's Discussion and Analysis and the Schedule of Funding Progress – Other Postemployment Benefits that are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stone County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Will R. Dooss". The signature is fluid and cursive, with a long horizontal stroke at the end.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

June 17, 2013

STONE COUNTY

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STONE COUNTY

FINANCIAL STATEMENTS

STONE COUNTY

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STONE COUNTY
Statement of Net Assets
September 30, 2011

Exhibit 1

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash	\$ 323,958		323,958
Restricted assets - investments		2,639,169	2,639,169
Property tax receivable	4,737,820		4,737,820
Fines receivable (net of allowance for uncollectibles of \$516,384)	187,802		187,802
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	985,472	429,008	1,414,480
Other receivables	2,803		2,803
Internal balances	(20,661)	20,661	0
Deferred charges - bond issuance costs		161,050	161,050
Capital assets:			
Land and construction in progress	5,148,392	12,957	5,161,349
Other capital assets, net	8,742,112	4,844,674	13,586,786
Total Assets	20,107,698	8,107,519	28,215,217
LIABILITIES			
Due to general depository	\$ 178,437		178,437
Claims payable	691,077	72,343	763,420
Intergovernmental payables	176,643		176,643
Short-term notes	550,105		550,105
Accrued interest payable	3,425	54,240	57,665
Deferred revenue	4,737,820		4,737,820
Other payables	37,623		37,623
Long-term liabilities			
Due within one year:			
Capital debt	915,101	404,414	1,319,515
Due in more than one year:			
Capital debt	1,739,364	3,265,513	5,004,877
Non-capital debt	135,678	65,539	201,217
Total Liabilities	9,165,273	3,862,049	13,027,322
NET ASSETS			
Invested in capital assets, net of related debt	11,236,039	1,187,704	12,423,743
Restricted:			
Expendable:			
General government	22,183		22,183
Debt service		813,269	813,269
Public safety	244,668	2,244,497	2,489,165
Public works	567,539		567,539
Culture and recreation	17,849		17,849
Economic development	39,472		39,472
Unemployment compensation	22,013		22,013
Unrestricted	(1,207,338)		(1,207,338)
Total Net Assets	\$ 10,942,425	4,245,470	15,187,895

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2011

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 3,196,316	611,871			(2,584,445)		(2,584,445)
Public safety	2,419,663	207,662	194,044	4,744,870	2,726,913		2,726,913
Public works	2,311,157		600,979	173,597	(1,536,581)		(1,536,581)
Health and welfare	178,196		65,367		(112,829)		(112,829)
Culture and recreation	140,343			62,331	(78,012)		(78,012)
Education	117,906		117,906				
Conservation of natural resources	50,861		185,000		134,139		134,139
Economic development and assistance	104,601		66,841	60,979	23,219		23,219
Interest on long-term debt	123,919				(123,919)		(123,919)
Total Governmental Activities	<u>8,642,962</u>	<u>819,533</u>	<u>1,230,137</u>	<u>5,041,777</u>	<u>(1,551,515)</u>		<u>(1,551,515)</u>
Business-type activities:							
Correctional facility	<u>3,479,593</u>	<u>3,331,193</u>				(148,400)	(148,400)
Total Business-type Activities	<u>3,479,593</u>	<u>3,331,193</u>				(148,400)	(148,400)
Total Primary Government	<u>\$ 12,122,555</u>	<u>4,150,726</u>	<u>1,230,137</u>	<u>5,041,777</u>	<u>(1,551,515)</u>	<u>(148,400)</u>	<u>(1,699,915)</u>
General revenues:							
Property taxes					\$ 5,805,356		5,805,356
Road & bridge privilege taxes					199,525		199,525
Grants and contributions not restricted to specific programs					288,543		288,543
Unrestricted interest income					16,131	272	16,403
Miscellaneous					352,477	51,848	404,325
Transfers					<u>4,679</u>	<u>(4,679)</u>	<u>0</u>
Total General Revenues and Transfers					<u>6,666,711</u>	<u>47,441</u>	<u>6,714,152</u>
Changes in Net Assets					<u>5,115,196</u>	<u>(100,959)</u>	<u>5,014,237</u>
Net Assets - Beginning, as previously reported					5,457,421	4,346,429	9,803,850
Prior period adjustment					<u>369,808</u>		<u>369,808</u>
Net Assets - Beginning, as restated					<u>5,827,229</u>	<u>4,346,429</u>	<u>10,173,658</u>
Net Assets - Ending					<u>\$ 10,942,425</u>	<u>4,245,470</u>	<u>15,187,895</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2011

Exhibit 3

	Major Funds			
	General Fund	Countywide Bridge & Culvert Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 288,173		35,785	323,958
Property tax receivable	3,342,840	525,701	869,279	4,737,820
Fines receivable (net of allowance for uncollectibles of \$516,384)	187,802			187,802
Loans receivable	22,439			22,439
Allowance for uncollectible accounts	(22,439)			(22,439)
Intergovernmental receivables	98,643		886,829	985,472
Other receivables	2,803			2,803
Due from other funds	84,396	219,750	841,549	1,145,695
Advances to other funds	4,944	3,456	5,925	14,325
Total Assets	\$ 4,009,601	748,907	2,639,367	7,397,875
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to general depository	\$ 178,437			178,437
Claims payable	94,097	15,570	581,410	691,077
Intergovernmental payables	165,570			165,570
Due to other funds	700,143		456,625	1,156,768
Short-term notes	550,105			550,105
Advances from other funds	22,071		12,915	34,986
Deferred revenue	3,530,642	525,701	869,279	4,925,622
Other payables	37,623			37,623
Total Liabilities	5,278,688	541,271	1,920,229	7,740,188
Fund balances:				
Nonspendable:				
Advances	4,944			4,944
Restricted for:				
General government			22,183	22,183
Public safety			244,668	244,668
Public works		207,636	359,903	567,539
Culture and recreation			17,849	17,849
Economic development			39,472	39,472
Unemployment compensation			22,013	22,013
Committed to:				
Debt service			13,772	13,772
Unassigned	(1,274,031)		(722)	(1,274,753)
Total Fund Balances	(1,269,087)	207,636	719,138	(342,313)
Total Liabilities and Fund Balances	\$ 4,009,601	748,907	2,639,367	7,397,875

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2011

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ (342,313)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$5,579,677.	13,890,504
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	187,802
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,790,143)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(3,425)</u>
Total Net Assets - Governmental Activities	\$ <u>10,942,425</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2011

	Major Funds			
	General	Countywide	Other	Total
	Fund	Bridge & Culvert	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 4,092,458	676,944	1,035,954	5,805,356
Road and bridge privilege taxes			199,525	199,525
Licenses, commissions and other revenue	280,061	2,312	20,465	302,838
Fines and forfeitures	378,388		22,316	400,704
Intergovernmental revenues	834,819	178,641	5,546,997	6,560,457
Charges for services	167,316			167,316
Interest income	9,133	1,016	5,982	16,131
Miscellaneous revenues	144,122	3,331	205,024	352,477
Total Revenues	5,906,297	862,244	7,036,263	13,804,804
EXPENDITURES				
Current:				
General government	3,028,208		31,419	3,059,627
Public safety	2,394,809		4,787,503	7,182,312
Public works	5,804	655,407	1,425,793	2,087,004
Health and welfare	149,696			149,696
Culture and recreation	179,977		67,047	247,024
Education	117,906			117,906
Conservation of natural resources	50,861			50,861
Economic development and assistance	8,625		95,021	103,646
Debt service:				
Principal	151,220		783,733	934,953
Interest	25,610		99,156	124,766
Total Expenditures	6,112,716	655,407	7,289,672	14,057,795
Excess of Revenues over (under) Expenditures	(206,419)	206,837	(253,409)	(252,991)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	123,972		127,011	250,983
Proceeds from sale of capital assets	2,901			2,901
Transfers in	364,209		964,511	1,328,720
Transfers out	(565,023)	(9,460)	(749,558)	(1,324,041)
Total Other Financing Sources and Uses	(73,941)	(9,460)	341,964	258,563
Net Changes in Fund Balances	(280,360)	197,377	88,555	5,572
Fund Balances - Beginning, as previously reported	(988,727)	10,259	630,583	(347,885)
Fund Balances - Ending	\$ (1,269,087)	207,636	719,138	(342,313)

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2011

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 5,572
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$5,324,334 exceeded depreciation of \$807,157 in the current period.	4,517,177
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$27,765 and the proceeds from the sale of \$2,901 in the current period.	(30,666)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(51,325)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$934,953 exceeded debt proceeds of \$250,983.	683,970
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The increase in compensated absences payable	(10,379)
The decrease in accrued interest payable	<u>847</u>
Change in Net Assets of Governmental Activities	\$ <u><u>5,115,196</u></u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2011

Exhibit 5

	Business-type Activities - Enterprise Fund	Correctional Facility Fund
ASSETS		
Current assets:		
Restricted assets - investments	\$	2,639,169
Intergovernmental receivables		429,008
Advances to other funds		22,071
Total Current Assets		<u>3,090,248</u>
Noncurrent assets:		
Deferred charges - bond issuance costs		161,050
Capital assets:		
Land		12,957
Other capital assets, net		4,844,674
Total Noncurrent Assets		<u>5,018,681</u>
Total Assets		<u>8,108,929</u>
LIABILITIES		
Current liabilities:		
Claims payable		72,343
Advances from other funds		1,410
Accrued interest payable		54,240
Capital debt:		
Capital leases payable		24,414
Other long-term liabilities		380,000
Total Current Liabilities		<u>532,407</u>
Noncurrent liabilities:		
Capital debt:		
Capital leases payable		19,566
Other long-term liabilities		3,245,947
Non-capital debt:		
Compensated absences payable		65,539
Total Noncurrent Liabilities		<u>3,331,052</u>
Total Liabilities		<u>3,863,459</u>
NET ASSETS		
Invested in capital assets, net of related debt		1,187,704
Restricted for:		
Debt service		813,269
Public safety		2,244,497
Total Net Assets	\$	<u>4,245,470</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2011

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Operating Revenues	
Charges for services	\$ 3,331,193
Miscellaneous	51,848
Total Operating Revenues	<u>3,383,041</u>
Operating Expenses	
Personal services	1,963,620
Contractual services	525,676
Materials and supplies	647,764
Depreciation expense	169,511
Total Operating Expenses	<u>3,306,571</u>
Operating Income (Loss)	<u>76,470</u>
Nonoperating Revenues (Expenses)	
Interest income	272
Interest expense	(150,977)
Loss on disposal of assets	(1,914)
Amortization of deferred charges - bond issuance costs	(20,131)
Net Nonoperating Revenue (Expenses)	<u>(172,750)</u>
Net Income (Loss) Before Transfers	(96,280)
Transfers out	<u>(4,679)</u>
Changes in Net Assets	(100,959)
Net Assets - Beginning, as previously reported	<u>4,346,429</u>
Net Assets - Ending	<u>\$ 4,245,470</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2011

Exhibit 7

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,381,393
Payments to suppliers	(1,180,473)
Payments to employees	(1,958,372)
Other miscellaneous cash receipts	51,848
Net Cash Provided (Used) by Operating Activities	294,396
Cash Flows From Noncapital Financing Activities	
Cash paid to other funds:	
Operating transfers out	(4,679)
Net Cash Provided (Used) by Noncapital Financing Activities	(4,679)
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(273,361)
Principal paid on long-term debt	(396,577)
Interest paid on debt	(145,184)
Net Cash Provided (Used) by Capital and Related Financing Activities	(815,122)
Cash Flows From Investing Activities	
Interest on deposits	272
Net Cash Provided (Used) by Investing Activities	272
Net Increase (Decrease) in Cash and Cash Equivalents	(525,133)
Cash and Cash Equivalents at Beginning of Year	3,164,302
Cash and Cash Equivalents at End of Year	\$ 2,639,169
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 76,470
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	169,511
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	50,200
Increase (decrease) in claims payable	(7,033)
Increase (decrease) in compensated absences liability	5,248
Total Adjustments	217,926
Net Cash Provided (Used) by Operating Activities	\$ 294,396

The notes to the financial statements are an integral part of this statement.

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2011

Exhibit 8

		Agency Funds
ASSETS		
Cash	\$	53,323
Due from other funds		11,856
Total Assets	\$	<u>65,179</u>
LIABILITIES		
Intergovernmental payables	\$	64,396
Due to other funds		783
Total Liabilities	\$	<u>65,179</u>

The notes to the financial statements are an integral part of this statement.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Stone County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Stone County to present these financial statements on the primary government and its component unit which has a significant operational or financial relationship with the county.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Stone County Recreation Association

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business-type activity or governmental function is self-financing or draws from the general revenues of the county.

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Enterprise Fund and business-type activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Countywide Bridge and Culvert Fund - This fund is used to account for monies from specific revenue sources that are restricted for bridge and culvert maintenance.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

The county reports the following major Enterprise Fund:

Correctional Facility Fund – This fund is used to account for monies from inmate housing agreement income with the Mississippi Department of Corrections for housing state prisoners.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. Certain resources and revenues associated with the county's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue" fund is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of the trust agreement. The "depreciation and operating reserve" fund is used to pay the costs of major repairs and replacements to the correctional facility, the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The "excess revenue" fund is used to pay the costs of major repairs and replacements to the correctional facility as well to the pay operating and maintenance expense when other funds are insufficient to pay these expenses within established limitations. The "debt service reserve" fund is used to report resources set aside to subsidize potential deficiencies from the county's operation that could adversely affect debt service payments. The "general" account is used to accumulate funds to pay the principal and interest payments due on the county's enterprise fund revenue bonds. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. The extent to which capital assets costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Stone County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the county:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Supervisors, the county's highest level of decision-making authority. This formal action is an order of the Board of Supervisors as approved in the board minutes.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the county's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the county's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

L. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

M. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

N. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2011, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

(3) Prior Period Adjustment.

A summary of the significant fund equity adjustment is as follows:

Exhibit 2 - Statement of Activities – Governmental Activities.

Explanation	Amount
To correct prior year errors in capital assets, net.	\$ 369,808
(4) Deposits and Investments.	

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2011, was \$377,281, and the bank balance was \$1,121,223. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer.

Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

Investments:

As provided in Section 91-13-8, Miss. Code Ann. (1972), the following investments of the county are handled through a trust indenture between the county and the trustee related to the operations of the Stone County Regional Correctional Facility.

Investments balances at September 30, 2011, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
SEI Daily Income Trust Mutual Fund	Less than one year	\$ <u>2,639,169</u>	AAA

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972) limits the maturity period of any investment to no more than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. These investments are uninsured, unregistered and are not backed by the full faith of the federal government.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2011:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 84,396
Countywide Bridge and Culvert	General	219,750
Other Governmental Funds	General	468,537
Other Governmental Funds	Other Governmental Funds	372,229
Other Governmental Funds	Agency Funds	783
Agency Funds	General	<u>11,856</u>
Total		\$ <u>1,157,551</u>

The majority of the receivables represent amounts received from various funds to cover deficit cash balances. All other receivables represent the tax revenue collected but not settled until October, 2011. All interfund balances are expected to be repaid within one year from the date of the financial statements.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

B. Advances From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 4,944
Countywide Bridge and Culvert	Other Governmental Funds	3,456
Other Governmental Funds	Other Governmental Funds	4,515
Other Governmental Funds	Correctional Facility	1,410
Correctional Facility	General	22,071
Total		\$ 36,396

The amount payable to the Correctional Facility Fund represents the correction of a prior year's error in the posting of revenue. The other amounts payable represent the correction of a prior year's errors in the posting of principal payments to incorrect funds. These amounts are expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 364,209
Other Governmental Funds	General Fund	565,023
Other Governmental Funds	Countywide Bridge and Culvert Fund	9,460
Other Governmental Funds	Other Governmental Funds	385,349
Other Governmental Funds	Correctional Facility Fund	4,679
Total		\$ 1,328,720

The principal purposes of interfund transfers were to provide funds for principal and interest payments on the General Obligation Bonds, Series 1993, to provide grant matches and to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2011, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 79,934
State and community highway safety grant	18,709
Hazard mitigation grants	886,829
Total Governmental Activities	\$ 985,472
Business-type Activities:	
Housing prisoner reimbursement	\$ 429,008

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(7) Loans Receivable.

Loans receivable balances at September 30, 2011, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Less: Allowance for doubtful accounts*				(22,439)
Total				\$ 0

* The Emergency Medical Services District loan receivable was determined to be uncollectible in fiscal year 1997.

(8) Restricted Assets.

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue fund	\$ 269,928
Depreciation and operating reserve fund	500,016
Excess revenue fund	1,055,828
Debt service reserve fund	410,514
Mandatory redemption fund	128
General account	402,755
Total restricted assets	\$ 2,639,169

(9) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2011:

Governmental activities:

	Balance Oct. 1, 2010	Additions	Deletions	Adjustments*	Balance Sept. 30, 2011
Non-depreciable capital assets:					
Land	\$ 459,256				459,256
Construction in progress	996,129	4,781,234		(1,088,227)	4,689,136
Total non-depreciable capital assets	1,455,385	4,781,234	0	(1,088,227)	5,148,392
Depreciable capital assets:					
Infrastructure	66,890				66,890
Buildings	6,488,348			1,268,497	7,756,845
Improvements other than buildings				188,960	188,960
Mobile equipment	3,547,508	137,469	229,258	16,424	3,472,143
Furniture and equipment	302,989	158,955		5,783	467,727
Leased property under capital leases	2,138,972	246,676		(16,424)	2,369,224
Total depreciable capital assets	12,544,707	543,100	229,258	1,463,240	14,321,789
Less accumulated depreciation for:					
Infrastructure	2,814	402			3,216
Buildings	1,325,321	147,398			1,472,719
Improvements other than buildings	0	7,558			7,558
Mobile equipment	2,422,732	204,427	198,592	11,827	2,440,394
Furniture and equipment	184,510	76,877		5,205	266,592
Leased property under capital leases	1,030,530	370,495		(11,827)	1,389,198
Total accumulated depreciation	4,965,907	807,157	198,592	5,205	5,579,677
Total depreciable capital assets, net	7,578,800	(264,057)	30,666	1,458,035	8,742,112
Governmental activities capital assets, net	\$ 9,034,185	4,517,177	30,666	369,808	13,890,504

Business-type activities:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

	Balance Oct. 1, 2010	Additions	Deletions	Adjustments*	Balance Sept. 30, 2011
Non-depreciable capital assets:					
Land	\$ 12,957				12,957
Total non-depreciable capital assets	<u>12,957</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,957</u>
Depreciable capital assets:					
Buildings	5,640,179	211,177			5,851,356
Mobile equipment	93,590		19,140	39,651	114,101
Furniture and equipment	109,694	62,184			171,878
Leased property under capital leases	112,380			(39,651)	72,729
Total depreciable capital assets	<u>5,955,843</u>	<u>273,361</u>	<u>19,140</u>	<u>0</u>	<u>6,210,064</u>
Less accumulated depreciation for:					
Buildings	1,029,749	117,033			1,146,782
Mobile equipment	70,842	13,404	17,226	28,548	95,568
Furniture and equipment	78,009	18,843			96,852
Leased property under capital leases	34,505	20,231		(28,548)	26,188
Total accumulated depreciation	<u>1,213,105</u>	<u>169,511</u>	<u>17,226</u>	<u>0</u>	<u>1,365,390</u>
Total depreciable capital assets, net	<u>4,742,738</u>	<u>103,850</u>	<u>1,914</u>	<u>0</u>	<u>4,844,674</u>
Business-type activities capital assets, net	\$ <u>4,755,695</u>	<u>103,850</u>	<u>1,914</u>	<u>0</u>	<u>4,857,631</u>

*Adjustments are to correct errors in the capital asset records and to reflect certain routine reclassifications of paid off capital leases and completed construction in progress.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 119,968
Public safety	374,242
Public works	257,621
Health and welfare	28,500
Culture and recreation	25,871
Economic development	955
Total governmental activities depreciation expense	\$ <u>807,157</u>
Business-type activities:	
Correctional facility	\$ <u>169,511</u>

Commitments with respect to unfinished capital projects at September 30, 2011, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Perkinston Elementary School Storm Shelter	\$ 138,480	October, 2011
Stone Elementary School Storm Shelter	60,475	November, 2011
Stone Middle School Storm Shelter	46,519	January, 2012
Stone High School Storm Shelter	357,663	February, 2012
Project Road Storm Shelter	89,178	November, 2011
Old Wire Road Trail Project	933,159	September, 2013
Stone County Old Hwy 49 Project	587,344	February, 2013

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

(10) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2011, to January 1, 2012. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(11) Operating Leases.

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$36,948 for the year ended September 30, 2011. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30</u>		<u>Amount</u>
2012	\$	36,948
2013		<u>36,948</u>
Total Minimum Payments Required	\$	<u><u>73,896</u></u>

(12) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2011:

<u>Classes of Property</u>		<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$	2,211,073	72,729
Furniture and equipment		<u>158,151</u>	
Total		2,369,224	72,729
Less: Accumulated depreciation		<u>(1,389,198)</u>	<u>(26,188)</u>
Leased Property Under Capital Leases	\$	<u><u>980,026</u></u>	<u><u>46,541</u></u>

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

The following is a schedule by years of the total payments due as of September 30, 2011:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 566,441	22,277	24,414	1,097
2013	161,329	8,987	19,566	284
2014	141,930	4,009		
2015	43,122	697		
2016	4,965	212		
Total	\$ 917,787	36,182	43,980	1,381

(13) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2011:

Description of Debt	Balance Oct. 1, 2010	Additions	Reductions	Adjustments	Balance Sept. 30, 2011
2009 tax anticipation promissory note	\$ 100,045		100,045		0
2010 tax anticipation promissory note	750,105		200,000		550,105
Total	\$ 850,150	0	300,045	0	550,105

During the month of October, 2009, the county issued \$600,045 of tax anticipation notes with an interest rate of 3.10% and maturity date of April, 2010, in order to alleviate a temporary operating cash flow deficiency. On April 9 2010, the county renewed the unpaid portion of tax anticipation notes in the amount of \$300,045, therefore, extending the maturity date to October, 2010.

During the month of July, 2010, the county issued \$750,105 of tax anticipation notes with an interest rate of 2.40% and maturity date of April, 2011, in order to alleviate a temporary operating cash flow deficiency. In April, 2011, the county renewed the unpaid portion of tax anticipation notes in the amount of \$550,105, therefore extending the maturity date to October, 2011.

(14) Other Postemployment Benefits.

Plan Description

The Stone County Board of Supervisors administers the county's health insurance plan which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The county's health insurance plan may be amended by the Stone County Board of Supervisors. The county purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the county has not recorded a liability for other postemployment benefits nor has the county reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The county does not issue a publicly available financial report for the Plan.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(15) Long-term Debt.

Debt outstanding as of September 30, 2011, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
General obligation bonds, Series 2003	\$ <u>1,100,000</u>	3.30/3.70%	03-2018
B. Capital Leases:			
IBM Turnkey system	\$ 16,457	3.27%	06-2013
2009 Dodge Charger	2,366	3.24%	12-2011
2009 Nissan Titan	7,013	3.14%	07-2012
2009 Dodge Charger	7,348	3.14%	07-2012
Digital copier	2,682	1.49%	03-2013
Two motor graders	14,258	3.24%	12-2011
Holland backhoe and line laser	1,331	3.09%	10-2011
2006 John Deere excavator	10,722	3.20%	12-2011
2009 Durapatcher	20,529	3.11%	12-2012
Two 2010 Mack garbage trucks	257,347	3.26%	06-2012
2009 Commercial pumper truck	156,649	3.18%	01-2015
2010 Freightliner tanker truck	171,694	3.14%	02-2015
Six Mack dump trucks	95,012	4.12%	06-2012
Two 2010 Dodge Chargers	38,298	3.71%	04-2014
2011 Ford F-150 truck	19,823	3.71%	04-2014
Two 2011 Dodge Chargers	55,457	3.00%	07-2014
Motorola MC5500 consoles	22,996	4.27%	07-2016
1999 & 2000 Ford F-150 trucks	10,229	3.15%	07-2014
1999 GMC C6500 dump truck	<u>7,576</u>	3.15%	07-2014
Total Capital Leases	\$ <u>917,787</u>		
C. Other Loans:			
Health Department	\$ 92,240	3.80%	09-2013
MDA Cap loan	105,371	3.00%	06-2017
Justice Court Law Library addition	31,034	3.25%	08-2013
2009 road paving note	<u>408,033</u>	3.25%	12-2014
Total Other Loans	\$ <u>636,678</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Correctional Facility	\$ <u>3,710,000</u>	3.10/4.00%	11-2019
B. Capital Leases:			
Two 2010 Dodge Chargers	\$ 28,717	3.26%	07-2013
2011 Ford F350 pick-up	<u>15,263</u>	3.49%	07-2013
Total Capital Leases	\$ <u>43,980</u>		

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

Pledge of Future Revenues - The county has pledged future revenues for housing inmates, net of specified operating expenses, to repay \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Bonds issued on September 25, 2009. Proceeds from the bonds provided financing for refunding the Urban Renewal Revenue Bonds issued in 1999, which were used for the construction of the Stone County Regional Correctional Facility. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The bonds are payable solely from income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November 1, 2019. Annual principal and interest payments on the bonds are expected to require less than 23 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,335,267. Principal and interest paid for the current year and total inmate housing net revenues were \$500,833 and \$3,331,193, respectively.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2012	\$ 135,000	36,009	213,660	9,581
2013	145,000	31,334	158,733	5,745
2014	150,000	26,356	125,280	2,100
2015	155,000	21,190	93,647	1,601
2016	165,000	15,668	16,161	1,105
2017 – 2021	350,000	13,020	29,197	741
Total	\$ 1,100,000	143,577	636,678	20,873
Business-type Activities:				
Year Ending September 30			Limited Obligation Bonds	
			Principal	Interest
2012		\$	380,000	124,285
2013			390,000	112,350
2014			405,000	100,027
2015			420,000	87,240
2016			430,000	74,065
2017 – 2021			1,685,000	127,300
Total		\$	3,710,000	625,267

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2011, the amount of outstanding debt was equal to 1.00% of the latest property assessments.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2011:

	Balance Oct. 1, 2010	Additions	Reductions	Adjustments	Balance Sept. 30, 2011	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 125,299	10,379			135,678	
General obligation bonds	1,230,000		130,000		1,100,000	135,000
Capital leases	1,239,287	250,983	572,483		917,787	566,441
Other loans	869,148		232,470		636,678	213,660
Total	\$ 3,463,734	261,362	934,953	0	2,790,143	915,101
Business-type Activities:						
Compensated absences	\$ 60,291	5,248			65,539	
Limited obligation bonds	4,075,000		365,000		3,710,000	380,000
Less:						
Discount	(24,540)		(2,727)		(21,813)	
Deferred amount on refunding	(70,020)		(7,780)		(62,240)	
Capital leases	75,557		31,577		43,980	24,414
Total	\$ 4,116,288	5,248	386,070	0	3,735,466	404,414

Compensated absences will be paid from the fund from which the employees' salaries were paid, which are generally the General Fund, Road and Bridge Fund and Correctional Facility Fund.

(16) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2011:

Fund	Deficit Amount
General Fund	\$ 1,269,087
Garbage and Solid Waste Fund	9,999
Road/Bridge Debt Service Fund	722
Economic Development Fund	5,398
Perkinston Elementary Shelter Fund	15,075
Stone Elementary Shelter Fund	4,252
Stone Middle School Shelter Fund	7,096
Stone High School Shelter Fund	14,482
Project Road Shelter Fund	34,547

(17) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

(18) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$70,064 in fiscal year 2011. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the city and county. By contractual agreement, the county's appropriation to the joint venture was \$2,000 in fiscal year 2011. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

(19) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$11,000 for support of the district in fiscal year 2011.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$27,500 for support of the agency in fiscal year 2011.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Counties, and one appointed at large. The county appropriated \$703,200 for maintenance and support of the college in fiscal year 2011.

Stone County Economic Development Partnership is governed by a 15-member board consisting of the President of the Board of Supervisors; five members appointed by the Board of Supervisors; three members appointed by the City of Wiggins; one member appointed by the Mississippi Gulf Coast Community College; and five members appointed at large by the Partnership. The organization is supported primarily by a sales tax collected by the county and remitted to the Partnership. The amount remitted in the 2011 fiscal year was \$336,039.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the nine members of the board of directors. The county contributed \$23,600 for support of the District in fiscal year 2011.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

(20) Defined Benefit Pension Plan.

Plan Description. Stone County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2011, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2011 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2011, 2010 and 2009 were \$500,636, \$526,311 and \$479,127, respectively, equal to the required contributions for each year.

(21) Subsequent Events.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Stone County evaluated the activity of the county through June 17, 2013, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2011, the county issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
11/4/2011	1.99%	\$ 500,000	Tax Anticipation Note***	Ad Valorem Taxes
11/16/2011	3.00%	31,940	Capital Lease	Pledged Revenues
12/22/2011	3.00%	38,765	Capital Lease	Pledged Revenues
1/24/2012	3.20%	34,000	Capital Lease	Pledged Revenues
1/24/2012	1.74%	119,832	Grant Anticipation Note*	Federal Grant
5/2/2012	1.55%	800,000	Other Loan	Ad Valorem Taxes
5/8/2012	3.00%	25,536	Capital Lease	Ad Valorem Taxes
5/14/2012	1.30%	305,150	Other Loan	Ad Valorem Taxes
7/10/2012	1.82%	356,400	Capital Lease	Ad Valorem Taxes
7/13/2012	1.56%	29,776	Capital Lease	Ad Valorem Taxes
7/16/2012	1.39%	27,287	Grant Anticipation Note**	Federal Grant
10/12/2012	2.65%	35,519	Capital Lease	Ad Valorem Taxes
10/23/2012	1.15%	737,150	Tax Anticipation Note***	Ad Valorem Taxes
9/25/2012	1.25%	27,274	Grant Anticipation Note****	Federal Grant
1/7/2013	1.94%	74,857	Capital Lease	Ad Valorem Taxes
3/1/2013	3.02%	29,633	Capital Lease	Ad Valorem Taxes
3/15/2013	3.95%	22,884	Capital Lease	Ad Valorem Taxes

* As of June 17, 2013, the amount of \$119,832 is outstanding on a \$714,000 line of credit.

** As of June 17, 2013, the total amount on a \$27,287 is outstanding on a \$567,000 line of credit.

*** As of June 17, 2013, these tax anticipation notes have been repaid.

**** As of June 30, 2013, the amount of \$27,274 is outstanding on a \$151,000 grant anticipation note.

STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,305,970	4,388,125	4,388,125	
Licenses, commissions and other revenue	420,068	278,224	278,224	
Fines and forfeitures	440,500	382,121	382,121	
Intergovernmental revenues	897,766	717,581	717,581	
Charges for services	165,000	167,316	167,316	
Interest income	6,000	3,043	3,043	
Miscellaneous revenues	114,100	126,822	126,822	
Total Revenues	<u>6,349,404</u>	<u>6,063,232</u>	<u>6,063,232</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	3,403,681	3,202,293	3,202,293	
Public safety	2,604,085	2,421,149	2,421,149	
Public works	3,225	5,804	5,804	
Health and welfare	249,214	158,591	158,591	
Culture and recreation	181,784	178,304	178,304	
Conservation of natural resources	51,254	51,113	51,113	
Economic development and assistance	6,000	8,925	8,925	
Debt service:				
Principal		451,226	451,226	
Interest		25,637	25,637	
Total Expenditures	<u>6,499,243</u>	<u>6,503,042</u>	<u>6,503,042</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(149,839)</u>	<u>(439,810)</u>	<u>(439,810)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		71,385	71,385	
Compensation for loss of capital assets		18,725	18,725	
Transfers in		468,305	468,305	
Transfers out		(491,498)	(491,498)	
Other financing sources	151,132			
Total Other Financing Sources and Uses	<u>151,132</u>	<u>66,917</u>	<u>66,917</u>	<u>0</u>
Net Change in Fund Balance	1,293	(372,893)	(372,893)	0
Fund Balances - Beginning	<u>165,000</u>	<u>(362,949)</u>	<u>(362,949)</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 166,293</u>	<u>(735,842)</u>	<u>(735,842)</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Countywide Bridge & Culvert Fund
 For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 689,486	670,484	670,484	
Licenses, commissions and other revenue	2,000	2,312	2,312	
Intergovernmental revenues	226,000	178,641	178,641	
Interest income	1,000	1,016	1,016	
Miscellaneous revenues	50,000	3,331	3,331	
Total Revenues	<u>968,486</u>	<u>855,784</u>	<u>855,784</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	<u>965,743</u>	<u>642,324</u>	<u>642,324</u>	
Total Expenditures	<u>965,743</u>	<u>642,324</u>	<u>642,324</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>2,743</u>	<u>213,460</u>	<u>213,460</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers out		(9,460)	(9,460)	
Total Other Financing Sources and Uses	<u>0</u>	<u>(9,460)</u>	<u>(9,460)</u>	<u>0</u>
Net Change in Fund Balance	2,743	204,000	204,000	0
Fund Balances - Beginning	<u>10,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 12,743</u>	<u>209,000</u>	<u>209,000</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

STONE COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2011

A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	Countywide Bridge & Culvert Fund
Budget (Cash Basis)	\$ (372,893)	204,000
Increase (Decrease)		
Net adjustments for revenue accruals	(224,268)	6,460
Net adjustments for expenditure accruals	316,801	(13,083)
GAAP Basis	\$ (280,360)	197,377

STONE COUNTY

SUPPLEMENTAL INFORMATION

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/ Passed-through the Mississippi State Treasurer's Office Schools and roads - grants to states	10.665	N/A	\$ 269,096
U.S. Department of Agriculture - Natural Resources Conservation Service/ Watershed protection and flood prevention (Direct Award)	10.904	69-4423-10-1990	185,000
Total U.S. Department of Agriculture			454,096
U.S. Department of Commerce - National Telecommunications and Information Administration/ Passed-through the Mississippi Wireless Communication Commission Public safety interoperable communications grant program	11.555	07PS313	254,431
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program and non-Entitlement grants in Hawaii	14.228	R-103-066-01-KP	272,367
U.S. Department of the Interior - Bureau of Ocean Energy Management, Regulation and Enforcement/ Passed-through the Mississippi Department of Marine Resources Coastal impact assistance program	15.426	M09AF16101	66,841
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 074 B(66)	19,800
U.S. Department of Transportation - National Highway Traffic Safety Administration/Passed-through the Mississippi Department of Public Safety - Office of Highway Safety State and community highway safety	20.600	11TA1661	69,081
Total U.S. Department of Transportation			88,881
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Hazard mitigation grant*	97.039	1604-50	968,371
Hazard mitigation grant*	97.039	1604-215	1,038,293
Hazard mitigation grant*	97.039	1604-242	1,004,729
Hazard mitigation grant*	97.039	1604-241	598,902
Hazard mitigation grant*	97.039	1604-224	659,053
Subtotal			4,269,348
Emergency management performance grants	97.042	N/A	21,065
Total U.S. Department of Homeland Security			4,290,413
Total Expenditures of Federal Awards			\$ 5,427,029

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

* Denotes major federal award program

STONE COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2011

Operating Expenditures, Cash Basis:

Salaries	\$	213,010
Contractual services		111,791
Expendable Commodities:		
Gasoline and petroleum products		72,674
Repair parts		5,569
Clothing		1,790
Tires		9,146
Supplies		5,156
Solid waste disposal fee		<u>49,190</u>
Solid Waste Cash Basis Operating Expenditures		468,326
Full Cost Expenses:		
Indirect administrative costs		1,415
Depreciation on equipment		61,630
Net effect of other accrued expenses		<u>(17,270)</u>
Solid Waste Full Cost Operating Expenses		<u><u>514,101</u></u>

STONE COUNTY

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STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the county's basic financial statements and have issued our report thereon dated June 17, 2013. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The report is also qualified on the governmental activities, business-type activities and Correctional Facility Fund because the county did not record a liability or current year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America. Our report also includes a qualified opinion on the General Fund because the county did not maintain and preserve subsidiary records documenting fines receivable and the aging of these fines receivable at September 30, 2011. Except for the limitations related to the qualified opinion on the General Fund, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the county is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Stone County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 11-1, 11-2, 11-3, 11-4, 11-5, 11-6, 11-7, 11-8, 11-9, 11-11, 11-13 and 11-14 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 11-10, 11-12 and 11-15 to be significant deficiencies.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-4, 11-6 and 11-7.

We also noted certain instances of noncompliance which we have reported to the management of Stone County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated June 17, 2013, included within this document.

Stone County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Stone County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

June 17, 2013



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors
Stone County, Mississippi

Compliance

We have audited the compliance of Stone County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2011. Stone County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Stone County, Mississippi's management. Our responsibility is to express an opinion on Stone County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stone County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Stone County, Mississippi's compliance with those requirements.

In our opinion, Stone County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

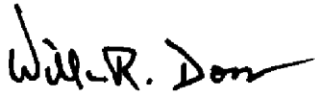
Internal Control Over Compliance

The management of Stone County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Doss". The signature is stylized with a large initial 'W' and a long, sweeping underline.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

June 17, 2013



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors
Stone County, Mississippi

We have examined Stone County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2011. The Board of Supervisors of Stone County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Stone County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

1. Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior two years' audit reports, deficiencies were noted in the capital assets records:

- a. A channel track filing system purchased on August 16, 2011 for \$21,706 was not added to inventory.
- b. Motorola MC5500 consoles were erroneously added to inventory at a cost of \$27,053 and were classified as furniture and equipment. Asset should have been recorded at the correct cost of \$108,211 and classified as a lease purchase.
- c. The construction in progress for the Perkinston Elementary School Storm Shelter was understated by \$1,054,943.
- d. The construction in progress for the Stone Elementary School Storm Shelter was understated by \$1,085,696.
- e. The construction in progress for the Stone Middle School Storm Shelter was understated by \$1,108,664.
- f. The construction in progress for the Stone High School Storm Shelter was understated by \$655,926.
- g. The construction in progress for the Project Road Storm Shelter was understated by \$691,986.
- h. The construction in progress for the Stone County EOC office was understated by \$203,818.
- i. The construction in progress for the Stone County Library was understated by \$68,550.
- j. The construction in progress for the Old Hwy 49 Project was understated by \$25,080.
- k. The construction in progress for the Old Wire Road Trail Project was understated by \$66,841.
- l. The construction in progress for the NRCS Grant Project was understated by \$188,960.

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval. The failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response

All findings have been corrected.

Assistant Purchase Clerk.

2. Assistant Purchase Clerk was not sufficiently bonded.

Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Assistant Purchase Clerk to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. The Assistant Purchase Clerk was only bonded for \$10,000 for fiscal year 2011. In the event of a loss of public funds involving the Assistant Purchase Clerk, the funds available to the county for recovery would be limited.

Recommendation

The Assistant Purchase Clerk should execute a new bond for \$50,000, as required by law.

Assistant Purchase Clerk's Response

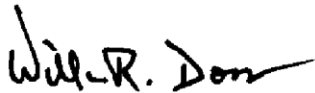
Management will comply with the recommendation of the Office of the State Auditor.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2011.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended for use in evaluating the central purchasing system and inventory control system of Stone County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Dooss". The signature is written in a cursive, flowing style.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

June 17, 2013

STONE COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2011

Our test results did not identify any purchases from other than the lowest bidder.

STONE COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2011

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
12-29-10	IBM X3400 Server	\$ 11,597	Premise, Inc.	Stone County Correctional Facility had no computer capability for administration or officers to obtain statewide information for booking and releasing inmates.
08-25-11	A/C Compressor	5,783	Geiger Heat & Air	Courthouse was without air conditioning.

STONE COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2011

Our test results did not identify any purchases made noncompetitively from a sole source.



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2011, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 17, 2013, on the financial statements of Stone County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Required documentation should be filed with PERS when hiring PERS service retirees.

Finding

The Mississippi Public Employees Retirement System (PERS) requires, under the re-employment provisions of Section 25-11-127, Miss. Code Ann. (1972), counties hiring PERS service retirees to file PERS Form 4B, "Certification/Acknowledgement of Reemployment of Retiree" with the PERS office within five (5) days of employment of a PERS retiree. The county failed to file this form within the required time for six of its employed PERS retirees. This caused the county to be in noncompliance with legal requirements.

Recommendation

The Board of Supervisors should ensure that the required form is filed with PERS as soon as possible and should implement procedures to ensure that the county files PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" for all retirees rehired by the county within five days of employment..

Board of Supervisors' Response

Failure to file Form 4Bs with PERS was an oversight on the part of the comptroller. Forms will be filed with PERS as necessary in the future.

2. Interfund transfers not approved by the Board of Supervisors.

Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for all proceedings of the Board of Supervisors. Interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

Management will comply with the recommendations of the Office of the State Auditor.

Deputy Tax Assessors.

3. Deputy Tax Assessors were not bonded.

Finding

Section 27-1-3, Miss. Code Ann. (1972), requires each Deputy Tax Assessor to execute a bond for \$10,000. The Deputy Tax Assessors were not bonded for the fiscal year 2011. In the event of a loss of public funds involving the Deputy Tax Assessors, the county would have been responsible for recovery of funds and might have incurred an unnecessary liability.

Recommendation

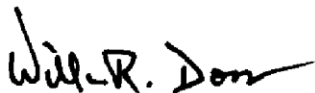
The Deputy Tax Assessors should execute a bond in the amount of \$10,000 each, as required by law.

Deputy Tax Assessors' Response

I agree with this finding. My office will comply.

Stone County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

June 17, 2013

STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

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STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | Business-type activities | Qualified |
| | Aggregate discretely presented component unit | Adverse |
| | General Fund | Qualified |
| | Countywide Bridge & Culvert Fund | Unqualified |
| | Correctional Facility Fund | Qualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section ____510(a) of OMB Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Hazard mitigation grant, CFDA #97.039 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

11-1. Financial data for component unit not included in financial statements.

Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issued financial statements for the financial reporting entity that include the financial data for its component unit. As reported in the prior four years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for inclusion in the county's financial statements.

Board of Supervisors' Response

Management will attempt to secure a copy of the financial reports from the Stone/Wiggins Recreational Association for inclusion in the county's financial statements.

Material Weakness

11-2. Liability for postemployment benefits not recorded/note disclosures for postemployment benefits not reported.

Finding

Stone County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the county's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined benefit health care plan. GASB Statement No. 45 requires the county to report on an accrual basis the liability associated with other postemployment benefits. The county does not issue a publicly available financial report for its health insurance plan. Also, as reported in the prior year's audit report, the county has not recorded a liability for other postemployment benefits nor has the county reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the governmental activities, business-type activities and Correctional Facility Fund.

Recommendation

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Board of Supervisors' Response

Management will consider hiring an independent insurance actuary to help comply with this finding. However, management believes that the costs associated with complying with this finding outweigh any benefits to the county. Management has chosen to voluntarily accept this finding.

Material Weakness

- 11-3. County did not maintain adequate subsidiary records documenting revenues/expenditures for federal grants received.

Finding

An effective system of internal control over federal grants should include adequate subsidiary records documenting all revenues and expenditures relating to each federal grant received. The county did not report all federal grant expenditures on the Schedule of Expenditures of Federal Awards for the year ended September 30, 2011. As a result, several corrections were proposed by the auditor and made by the county to the Schedule of Expenditures of Federal Awards. The failure to properly complete the Schedule of Expenditures of Federal Awards increases the possibility of reporting incorrect amounts of federal expenditures, as well as the possibility of excluding a federal grant on the Schedule of Expenditures of Federal Awards.

Recommendation

The county should properly maintain adequate subsidiary records documenting all revenues and expenditures relating to each federal grant received.

Board of Supervisors' Response

Management will comply with the recommendations of the Office of the State Auditor.

Material Weakness

Material Noncompliance

- 11-4. County signed warrants without sufficient money.

Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior four years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2011, the following funds had negative cash balances:

- a. General County Fund - \$792,053
- b. Planning/Code Fund - \$106,629
- c. Economic Development Fund - \$5,398
- d. Perkinston Elementary Shelter Fund - \$85,451
- e. Stone Elementary Shelter Fund - \$110,973
- f. Stone County Middle School Shelter Fund - \$6,267
- g. Stone County High School Shelter Fund - \$149,040
- h. Project Road Shelter Fund - \$99,496
- i. Circuit Clerk's Payroll Fund - \$47
- j. Chancery Clerk's Payroll Fund - \$736

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Failure to have sufficient cash balances in county funds prior to writing checks on these funds resulted in other funds' cash being used for purposes other than their intended purpose. These types of transactions could result in the Board of Supervisors being held personally liable for such amounts.

Recommendation

The Board of Supervisors should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

Board of Supervisors' Response

Shortfalls in the Circuit Clerk Payroll Clearing Fund and the Chancery Clerk Payroll Clearing Fund were timing issues, and were corrected with the next accounts payable. Shortfalls related to the Stone County storm shelters are because reimbursements are made to the county from FEMA/MEMA after funds for engineering, architectural services, and construction have been expended. Shortfalls in the General Fund will need to be corrected with reallocation of existing millage, or addition of millage. Note that as of Fiscal Year 2012, the Planning/Code Fund balance was incorporated into the General Fund balance.

Material Weakness

11-5. Controls over financial statement preparation should be strengthened.

Finding

An effective system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles should include adequate detail to document the compilation of individual funds' balances and transactions as well as any adjustments to these balances and transactions, proper accrual of revenues and expenditures/expenses, proper classification of revenues and expenditures/expenses, proper posting of transactions, proper classification of restricted net assets and fund balances, accurate reporting of debt and the inclusion of all required disclosures in the notes to the financial statements. We noted the following deficiencies in the financial statement preparation and reporting:

- a. The documentation provided for the compilation of individual funds' balances and transactions and the adjustments to these balances and transactions did not provide sufficient detail as to the specific revenue sources in order to facilitate proper revenue classifications in the statement of activities. The documentation provided also did not provide sufficient detail in regard to adjustments made to balances and transactions. Failure to include sufficient detail as to the specific revenue sources and adjustments made to balances and transactions resulted in numerous errors in revenue classifications in the statement of activities. It also resulted in increased audit costs due to additional time required to identify specific revenue sources, calculate the amount of the specific revenues, prepare adjusting entries to correct the classification of the revenues and to correct the amounts reported in the financial statements.
- b. Motor vehicle and mobile home property taxes were accrued in error as Property Tax Receivable. This error resulted in Property Tax Receivable and Deferred Revenue balances being overstated by \$861,480, \$135,637, \$187,764 and \$1,184,881 for the General Fund, Countywide Bridge and Culvert Fund, Aggregate Remaining Fund Information and Governmental Activities opinion units, respectively. This error had a net effect of zero on the revenues and fund balances/net assets of these opinion units.
- c. Intergovernmental revenues were not accrued for the Hazard Mitigation Grants, State and Community Highway Safety Grant and housing prisoner reimbursement. This error resulted in Intergovernmental Receivables and Revenues being understated by \$18,709, \$435,602, \$454,311 and \$138,481 for the General Fund, Aggregate Remaining Fund Information, Governmental Activities and Business-type Activities opinion units, respectively.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

- d. In the General Fund and Governmental Activities opinion units, short-term notes totaling \$550,105 were erroneously omitted from the financial statements. This error resulted in fund balances/net assets of these opinion units to be overstated by this amount.
- e. Debt proceeds and expenditures for capital leases totaling \$85,214 were not reported in the financial statements. Failure to reflect these debt proceeds resulted in long-term debt being understated.
- f. In the General Fund and Governmental Activities opinion units, the school portion of federal revenues received and related expenditures/expenses related to national forestry were not recognized. This error resulted in federal revenues and education expenditures/expenses being understated by \$117,906.
- g. Cash and refunds were recorded in the amount of \$204,249 in Fund 110, Interface Allotment Fund. This fund was not created by the county until fiscal year 2012. No supporting documentation was provided to explain adjustment. This error resulted in an overstatement of assets, revenues and fund balances/net assets for the Governmental Activities and Aggregate Remaining Fund Information opinion units by this amount.
- h. Prior year accruals of revenue were erroneously reversed to an expenditure/expense, thereby overstating revenues and expenditures/expenses.
- i. In the Business-type Activities and Correctional Facility Fund opinion units, an entry was made in the prior year to record a deposit in transit and corresponding transfer in the amount of \$500,000. This entry was reversed in the current year to an expense, instead of the actual transfer. Also, an adjusting entry was made to "eliminate intrabank transfers" by increasing charges for services and cash in the amount of \$481,895. This resulted in an overstatement of expenses and transfers in the amount of \$500,000, as well as an overstatement of charges for services and cash in the amount of \$481,895.
- j. Amounts and classifications reported for fund balances for governmental funds on the balance sheet were incorrect. Failure to document calculations, as well as classifications of fund balances resulted in incorrect amounts and classification errors on the balance sheet for governmental funds.
- k. Amounts reported for several net asset restrictions on the statement of net assets were incorrect. Failure to document calculations of net asset restrictions resulted in incorrect amounts being reported on the statement of net assets.

Audit adjustments to correct these errors in the county's financial statements and notes to the financial statements were proposed to management and made to the financial statements with management's approval.

Recommendation

The Board of Supervisors should implement a system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles that includes adequate detail to document the compilation of individual funds' balances and transactions as well as any adjustments to these balances and transactions, proper accrual of revenues and expenditures/expenses, proper classification of revenues and expenditures/expenses, proper posting of transactions, proper classification of net assets and fund balances, accurate reporting of debt and the inclusion of all required disclosures in the notes to the financial statements.

Board of Supervisors' Response

Management will select a different CPA firm to prepare future financial statements. The firm selected for compilation of the 2011 financial statements proved unsuitable to the county's needs.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Material Weakness Material Noncompliance

11-6. Tax anticipation notes not repaid by required date.

Finding

Section 19-9-27, Miss. Code Ann. (1972), authorizes the Board of Supervisors to borrow money in anticipation of taxes for the purpose of defraying expenses of the county and to issue negotiable notes of the county, therefore, to mature not later than April 1 of the year succeeding the year in which they are issued. For the payment of such loan, the Board of Supervisors shall either pledge the levy of a special tax each year sufficient to pay the amount borrowed for use that year, with interest, or shall pledge that such notes shall be paid out of the first money collected from taxes for the year in which they are issued. As reported in the prior year's audit report, the Board of Supervisors issued a \$750,105 tax anticipation note in July 2010 with a maturity date of April 2011 to be repaid out of the first money collected from taxes. However, \$550,105 of these notes was not repaid by the April maturity date as required by law. The Board of Supervisors renewed this amount and extended the maturity date until April, 2011. There is no authority for the Board of Supervisors to extend the maturity date of a tax anticipation loan beyond the April 1 maturity date established by law. Failure to repay tax anticipation notes authorized under this code section by the April 1 maturity date, resulted in the county actually issuing long term debt that is not authorized for these purposes.

Recommendation

The Board of Supervisors should ensure that all tax anticipation notes issued under the authority of this code section are repaid out of the first money collected from taxes for the year in which they are issued in order to comply with the April 1st maturity date established by law.

Board of Supervisors' Response

Management was unaware of the repayment provisions in the Mississippi Code Section 19-9-27 until the fiscal year 2010 audit. We received our 2010 audit report too late for notification of the provisions, and the same error in repayment was made in the fiscal year 2011. Management will comply with the recommendation of the Office of the State Auditor in future fiscal years.

Material Weakness Material Noncompliance

11-7. Road bond levy used to pay capital lease obligations.

Finding

Section 65-15-15, Miss. Code Ann. (1972), authorizes the Board of Supervisors to levy a special tax to be used exclusively in paying the interest on road bonds and in providing a sinking fund for their redemption. As reported in the prior year's audit report, the Board of Supervisors levied a 1.26 mill tax under the authority of this code section. However, the county has not issued any road bonds. The proceeds of this levy were used to make principal and interest payments on capital lease obligations. There is no authority to levy a tax for the repayment of capital lease obligations. Failure to use tax levy proceeds for the purpose authorized by law results in a diversion of funds.

Recommendation

The Board of Supervisors should only levy for road bonds under this section when the county actually has issued road bonds and should ensure that all tax levy proceeds are expended as authorized by law.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Board of Supervisors' Response

Management was unaware of the levy provisions in Mississippi Code Section 65-15-15 until the fiscal year 2010 audit. We received our 2010 audit report too late for notification of the provisions, and the same error was made in the fiscal years 2011 and 2012. The finding was corrected at the beginning of fiscal year 2013.

Material Weakness

11-8. Processing of payroll and other payroll duties not adequately segregated.

Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior three years' audit reports, the maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weakness in the payroll function:

- a. The comptroller, who maintains the general ledger, also prepares the payroll and distributes some of the payroll checks.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W2's are returned directly to the comptroller.

Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that proper segregation of duties exists with respect to control of the general ledger, the processing of payroll and other payroll duties.

Board of Supervisors' Response

Management will attempt to segregate payroll duties, but is limited by available funds to hire additional personnel.

Material Weakness

11-9. Cash collections and general ledger maintenance functions not adequately segregated.

Finding

An effective system of internal controls should include an adequate segregation of duties. As reported in the prior three years' audit reports, cash collections and general ledger maintenance functions are not adequately segregated for effective internal control. The comptroller receipts funds, prepares all deposits, reconciles the county's bank statements and posts the receipts to the general ledger. Failure to have an adequate segregation of duties could result in the loss of public funds.

Recommendation

The Board of Supervisors should implement effective internal control policies that allow for the proper segregation of duties for the cash collection and general ledger maintenance functions.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Board of Supervisors' Response

Management will attempt to segregate cash collection duties, but is limited by available funds to hire additional personnel.

Significant Deficiency

11-10. Inadequate controls over billing and receipt of revenues for housing prisoners.

Finding

An effective system of internal control over the recording of transactions for housing prisoners should include timely billing of invoices and the proper classification of revenues and expenditures/expenses. We noted the following deficiencies in the recording of transactions for housing prisoners:

- a. Some invoices for housing prisoners were not billed in a timely manner.
- b. The comptroller records revenues and expenditures/expenses based on the trust statements that are received; however, these transactions are not reconciled to the records maintained by the administrative assistant at the correctional facility.

Failure to bill invoices in a timely manner and reconcile recorded transactions could result in the incorrect classification of revenues and expenditures/expenses in the county's accounting records, as well as the misappropriation or loss of public funds.

Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that all transactions are recorded and correctly classified in the county's accounting records, and that all invoices for housing prisoners are billed in a timely manner.

Board of Supervisors' Response

Management will comply with the recommendations of the Office of the State Auditor.

Circuit Clerk.

Material Weakness

11-11 The Circuit Court Clerk should ensure effective controls over fines receivable records.

Finding

An effective system of internal control over fines receivable records should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance. Based upon audit procedures performed, management did not maintain and preserve adequate subsidiary records documenting the existence and valuation of fines receivable for Circuit Court fines and the aging of fines receivable as of September 30, 2011. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Circuit Court fines receivable.

Recommendation

The Circuit Court Clerk should establish procedures documenting the existence and valuation of Circuit Court fines receivable, including the aging schedules of fines receivable. The Circuit Clerk should also preserve a copy of these records.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Circuit Court Clerk's Response

Any recommended assistance as to how to achieve the requested results would be appreciated. I have never understood how you 'guesstimate' and age the collection of criminal fines that may never be collected. I will however try.

Significant Deficiency

11-12. Bank statements not reconciled to cash journals.

Finding

An effective system of internal control should include maintaining cash journals and reconciling the bank statements to the cash journals. As reported in the prior year's audit report, the bank statements were not reconciled to the cash journals. Failure to reconcile the bank statements to the cash journals could result in the loss of public funds.

Recommendation

The Circuit Clerk should ensure that the bank statements are reconciled to the cash journals.

Circuit Clerk's Response

The Circuit Clerk accepts the recommendation of the Office of the State Auditor and will comply.

Inventory Control Clerk.

Material Weakness

11-13. Inadequate controls over the inventory control system.

Finding

An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include description of assets, costs, locations, acquisition dates, disposition dates, methods of dispositions, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. As reported in the prior two years' audit reports, deficiencies were noted in the capital assets records:

- a. A channel track filing system purchased on August 16, 2011 for \$21,706 was not added to inventory.
- b. Motorola MC5500 consoles were erroneously added to inventory at a cost of \$27,053 and were classified as furniture and equipment. Asset should have been recorded at the correct cost of \$108,211 and classified as a lease purchase.
- c. The construction in progress for the Perkinson Elementary School Storm Shelter was understated by \$206,697.
- d. The construction in progress for the Stone Elementary School Storm Shelter was understated by \$222,349.
- e. The construction in progress for the Stone Middle School Storm Shelter was understated by \$113,694.
- f. The construction in progress for the Stone High School Shelter was understated by \$253,033.
- g. The construction in progress for the Project Road Storm Shelter was understated by \$58,164.
- h. The construction in progress for the Stone County EOC Office was understated by \$155,157.
- i. The construction in progress for the Stone County Library was overstated by \$6,769.
- j. The construction in progress for the Stone County Old Hwy 49 Project was understated by \$25,080.

STONE COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval. The failure to properly maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

Inventory Control Clerk's Response

All findings have been corrected.

Justice Court Clerk.

Material Weakness

- 11-14. The Justice Court Clerk should ensure effective controls over fines receivable records.

Finding

An effective system of internal control over fines receivable records should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance. Based upon audit procedures performed, management did not maintain and preserve adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court fines and the aging of fines receivable as of September 30, 2011. Therefore, the Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Justice Court fines receivable.

Recommendation

The Justice Court Clerk should establish procedures documenting the existence and valuation of Justice Court fines receivable, including the aging schedules of fines receivable. The Justice Court Clerk should also preserve a copy of these records.

Justice Court Clerk's Response

I will make sure the report is generated on September 30th of each year.

Sheriff.

Significant Deficiency

- 11-15. Settlements in the Sheriff's office were not made timely.

Finding

An effective system of internal control for collecting, recording and disbursing cash in the Sheriff's office should include the settlement of collections to the proper parties on a timely basis. Monthly collections in the Sheriff's office were not settled to the county in a timely manner. Failure to make timely settlements of funds collected increases the possibility of loss or misappropriation of public funds.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Recommendation

The Sheriff's office should settle monthly collections to the county on a timely basis.

Sheriff's Response

Management accepts the recommendations of the Office of the State Auditor and will comply.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.